

MEDIA RELEASE

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**U.S. DEPARTMENT OF JUSTICE
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**FEDERAL FALSE CLAIMS ACT CASE RESULT IN
\$5.89 MILLION IN CIVIL FRAUD SETTLEMENTS**

- *Former owner of Louisville, Kentucky, based home healthcare agency, and his wife, both now residing in Dallas, Texas, pay \$2.3 million***
- *Medshares Diversified, Inc., a former Memphis, Tennessee, home healthcare agency, pays \$2,242,470***
- *National Century Financial Enterprises, Inc. pays \$1.35 million.***

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David L. Huber, United States Attorney for the Western District of Kentucky, along with the Department of Justice, Commercial Litigation Branch, Civil Frauds Division, and the Office of the Inspector General for the Department of Health and Human Services, announces that after a multi-year investigation, the United States has reached civil fraud settlements totaling over \$5.89 million with several defendants for their role in alleged violations of the federal False Claims Act. In particular, **William Riddle and Robin Riddle**, both of Dallas, Texas, have paid the United States \$2.3 million to settle certain civil fraud claims; **Medshares Diversified, Inc.**, a former Memphis, Tennessee, home healthcare agency, through its bankruptcy proceedings, paid \$2,242,470; and **National Century Financial Enterprises, Inc.**, through its bankruptcy proceedings, recently paid \$1.35 million..

Background

In May, 1999, 86 former employees of a Louisville based home healthcare entity known as **Homecare and Hospital Management, Inc.** (“HHM”), filed a federal whistle blower lawsuit in Louisville, Kentucky. United States ex rel. Employees of HHM 1-86 v. Homecare and Hospital Management, Inc., William Riddle, Jr., National Century Financial Enterprises, Inc., et al., Civil Action No. 3:99CV-340-H (W.D. Ky). The complaint asserted a barrage of claims, including violations of the federal False Claims Act. The complaint levied these claims against numerous defendants, including **William Riddle**, the former CEO of HHM, and **Lance Poulsen**, the former CEO of **National Century Financial Enterprises, Inc.** (“NCFE”). Mr. Poulsen has since been indicted for his involvement in an alleged multi-billion dollar criminal fraud case being prosecuted by the United States Attorney’s Office for the Southern District of Ohio.

HHM was a national home health agency headquartered in Prospect, Kentucky between 1993 through 1998. From its inception, HHM’s business plan was focused on growth accomplished through the aggressive acquisition of existing home health care businesses. Between fiscal year (“FY”) 1993 and FY 1996 HHM purchased 24 health care businesses, increasing its revenue from \$23.7 million in FY 1994 to \$166.8 million in FY 1996. To finance these acquisitions, HHM utilized NCFE proceeds to supply the funds needed to purchase these agencies. HHM, in turn, passed through to Medicare all of the financing costs associated with these NCFE funds, thereby having the Medicare program “underwrite” HHM’s acquisition schedule. It did so by claiming that these financing costs were reasonably related to patient care and, therefore, reimbursable by Medicare. In fact, costs associated with these acquisitions were not reimbursable, and their submission to Medicare for reimbursement was fraudulent.

NCFE was HHM's primary lender. NCFE's method of providing funding to HHM was through a mechanism known as accounts receivable financing. Through this process, HHM would pledge essentially all of its Medicare receivables to receive advance funding from NCFE. Accounts receivable financing essentially permitted HHM to immediately gain access to funds using HHM's receivables as collateral, thereby permitting HHM to have immediate use of its receivables before they were actually paid by Medicare.

By 1998, HHM was in dire financial straits, and sold many of its subsidiaries to Medshares. Nevertheless, in August 1998, HHM was forced into bankruptcy. Many employees were not paid certain employee benefits, such as paid days off, bonuses, or final paychecks. Mr. Riddle was named as a defendant in several lawsuits initiated by former employees as well as NCFE (which was owed millions of dollars from HHM).

Investigation

As part of its investigation, the United States developed certain facts indicating that William Riddle and Lance Poulsen conspired to defraud the Medicare system by using Medicare to finance HHM's growth without the need for investors to pay for HHM's acquisitions. Funding by NCFE was timed by William Riddle and Lance Poulsen to create the illusion that NCFE was offering financing for patient care when, in fact, financing was being used to buy new HHM subsidiaries. Forensic accounting demonstrated that HHM then passed through its financing costs associated with NCFE funds used to purchase these subsidiaries to Medicare for reimbursement, despite the fact that these funds were not used for patient care. The United States estimated that Medicare paid HHM \$2,837,628.00 as a result of this fraudulent conduct.

Medshares, for its part, was investigated by the United States for (1) submitting false claims to the United States in the form of fraudulent cost reports; (2) submitting for Medicare

reimbursement expenses related to patient care which were not qualified expenses related to actual patient care; and, (3) engaging in practices that included improperly charging Medicare for NCFE fees, improperly allocating amounts between HHM's corporate and regional costs, seeking reimbursement for "ghost employees" and improperly charging management fees to the Medicare program. In 1999 Medshares filed a chapter 11 bankruptcy petition in the Western District of Tennessee, case number 99-29024-L.

William Riddle subsequently moved to Dallas, Texas with his new wife, Robin Riddle, and entered into a marital partition agreement that effectively severed any rights William Riddle would have to certain community property realized by his marriage to Robin Riddle. The United States alleged that this marital partition agreement was a sham, entered into by the Riddles to shield their assets from William Riddle's liability as a result of HHM's debacle.

Settlements

In March, 2006, William Riddle and Robin Riddle, denying all liability, entered into a settlement with the United States, agreeing to pay \$2.3 million. In July 2006, NCFE agreed to settle the United States' claims against it for \$1.35 million, as directed through its bankruptcy proceedings. In July 2003, Medshares entered into a consent judgment with the United States settling its liability for \$2,807,924. The net amount realized from this bankruptcy settlement was \$2,242,470. The federal whistle blowers will receive 15% of the total settlement amounts received by the United States in accordance with their rights under the federal False Claims Act.

This case was prosecuted by Assistant United States Attorneys William F. Campbell and Benjamin S. Schecter, and Vanessa Reed, Trial Attorney, with the Department of Justice Commercial Litigation Branch Civil Frauds Division, with assistance from the Office of the Inspector General for the Department of Health and Human Services.

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